

**OFFICE OF THE GOVERNOR
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Office of the Governor for the year ended June 30, 2003, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting system;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

AGENCY BACKGROUND

The Governor has responsibility for managing the executive branch of the government, serving as Chief of State, and acting as the Commander-In-Chief of the Virginia National Guard. The Division of Selected Agency Support Services in the Office of the Secretary of Administration provides financial administrative support to the Governor's Office.

The Governor's Office receives its funding through an appropriation from the General Fund of the Commonwealth. Since fiscal year 2000, the Governor's Office has received supplemental funding for unbudgeted operating expenses. During fiscal year 2000, the Governor's Office received fund transfers from the other Cabinet Secretaries' Offices to offset expenses in this office. In response to a finding in the fiscal year 2000 audit, the Governor's Office began receiving the additional funding in the form of supplemental appropriations.

Since fiscal year 2000, the budget shown in the Appropriations Act does not reflect the Governor's Office actual expenses. In the future, the Governor's Budget Bill should reflect the actual expenses of the Governor's Office.

	<u>Fiscal Year</u> <u>2000</u>	<u>Fiscal Year</u> <u>2001</u>	<u>Fiscal Year</u> <u>2002</u>	<u>Fiscal Year</u> <u>2003</u>
Original appropriation	\$ 2,267,323	\$ 2,378,854	\$ 2,379,597	\$ 2,427,764
Supplemental appropriations and other adjustments	<u>849,015</u>	<u>676,317</u>	<u>1,341,789</u>	<u>1,355,879</u> ²
Final appropriation	3,116,338	3,055,171	3,721,386	3,783,643
Expenses	<u>3,103,208</u> ¹	<u>3,050,441</u>	<u>3,694,344</u>	<u>3,739,769</u>
Unexpended balance	<u>\$ 13,130</u>	<u>\$ 4,730</u>	<u>\$ 27,042</u>	<u>\$ 43,874</u>

¹ The amounts shown for fiscal year 2000 as "Supplemental appropriations and other adjustments" and "Expenses" include an adjustment to treat the transfers from the Cabinet Secretaries' Offices as if they were a supplemental appropriation rather than an offset to expenses. Below is a table that shows the effect on "Supplemental appropriations and other adjustments" and "Expenses."

Supplemental appropriations	\$ 147,115
Expenditure credits	661,464
Expenditure refunds	<u>40,436</u>
Supplemental appropriations and other adjustments	<u>\$ 849,015</u>
Net expenses	\$ 2,401,308
Expense credits	661,464
Expense refunds	<u>40,436</u>
Total gross expenses	<u>\$ 3,103,208</u>

² The amount shown for fiscal year 2003 as "Supplemental appropriations and other adjustments" includes the reduction mandated in Chapter 1042 of the Appropriation Act as follows:

Supplemental appropriations	\$ 1,695,081
Reductions per Chapter 1042	<u>(339,202)</u>
Supplemental appropriations and other adjustments	<u>\$ 1,355,879</u>

In fiscal year 2003, the Governor's Office received supplemental appropriations, which increased its total budget and exceeded the budget cuts of \$339,202 taken in the 2003 Session of the General Assembly in Chapter 1042. Below is the detailed financial activity of the Office of the Governor for fiscal year 2003.

FINANCIAL INFORMATION

Original appropriation per Chapter 899			\$ 2,427,764
Reductions per Chapter 1042			<u>(339,202)</u>
Appropriations per Chapter 1042			2,088,562
Adjustments:			
Supplemental appropriation for:			
Unanticipated expenses:			
Operations	1,649,403		
Wilder Commission	<u>108,500</u>	1,757,903	
Mandated changes:			
Reappropriation of unexpended funds from prior year	27,043		
Health insurance premiums	26,133		
VSDP rate increase	10,106		
Bonus funding	35,788		
Governor's mandated budget reductions	(40,027)		
Retirement rate reduction	(90,733)		
VSDP rate reduction	(5,003)		
Group life insurance savings	(17,119)		
Retiree health credit reversions	(6,776)		
Other savings	<u>(2,234)</u>	<u>(62,822)</u>	
Net supplemental appropriations			<u>1,695,081</u>
Adjusted appropriations			3,783,643
Expenses:			
Salaries and fringe benefits	2,918,991		
Contractual services	523,334		
Supplies and materials	124,501		
Transfer payments	7,186		
Continuous charges	104,741		
Property and equipment	<u>61,016</u>		
Total expenses			<u>3,739,769</u>
Unexpended balance			<u>\$ 43,874</u>

The Citizen's Advisory Committee on Furnishing and Interpreting the Mansion operates a nonprofit charitable organization. The Committee works closely with the Governor's Office to aid in maintaining the Executive Mansion and accepts donations to support this work. In fiscal year 2003, the Committee carried over \$41,235 from prior year. During the year, the Committee received donations of \$1,708, and spent \$5,490 for the Mansion leaving an unexpended balance of \$37,453.

August 26, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Office of the Governor** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Office's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Office's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Expenditures	Appropriations
Revenues	Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Office's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Office's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Office properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Office records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on September 24, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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kva:

OFFICE OF THE GOVERNOR
Richmond, Virginia

Mark R. Warner, Governor

Division of Selected Agency Support Services

Dennis M. Johnson, Director